

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

200 W. Washington, Suite 301
Indianapolis, IN 46204
(317) 233-0696
<http://www.in.gov/legislative>

FISCAL IMPACT STATEMENT

LS 7630

BILL NUMBER: HB 1795

NOTE PREPARED: Jan 24, 2005

BILL AMENDED:

SUBJECT: TRF Rule of 80.

FIRST AUTHOR: Rep. Borders

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: X **GENERAL**
DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: This bill provides that a member of the Teachers' Retirement Fund (TRF) is eligible for normal retirement if the sum of the member's age in years plus the member's years of service is at least 80 and the member is at least 55 years of age. (Under current law, the sum of the member's age in years plus the member's years of service must equal 85 for the member to be eligible for normal retirement.)

Effective Date: July 1, 2005.

Explanation of State Expenditures: The estimated impact appears in the table below.

	Closed Plan	New Plan
Increase in Unfunded Accrued Actuarial Liability (UAAL)	\$47.3 M	\$16.4 M
Increase in Normal Cost (% of payroll)	0.11%	0.11%
Increase in UAAL (% of payroll)	<u>0.10%</u>	<u>0.07%</u>
Total Increase in Computed Employer Contribution Rate as a % of payroll	0.21%	0.18%
Increase In First Year \$ Contribution Based on Computed Rates	\$5.5 M	\$2.5 M

	Closed Plan	New Plan
Increase in Projected Benefit Payments as of:		
6/30/2005	\$2.2 M	\$0.2 M
6/30/2006	\$4.2 M	\$0.4 M

The fund affected for the Closed Plan is the state General Fund.

The New Plan is funded on a level percent of payroll by school corporations. It was established at 9%, but was reduced by the diversion of Lottery funds (\$30 M per year) from the Pension Stabilization Fund to the New Plan. The current rate is 6.82%. This change began July 1, 2003, and ends June 30, 2005.

Background Information: The rates of retirement for this estimate were not adjusted for any behavioral changes that might occur on the part of teachers in their retirement decisions. If retirement rates occur sooner than expected under the new Rule of 80, expenditures would be different than shown above.

Explanation of State Revenues:

Explanation of Local Expenditures: Please see *Explanation of State Expenditures* regarding New Plan expenditures.

Explanation of Local Revenues:

State Agencies Affected: Teachers' Retirement Fund.

Local Agencies Affected: School Corporations with members in the Teachers' Retirement Fund.

Information Sources: Ken Alberts of Gabriel Roeder Smith & Co., actuaries for TRF, 1-800-521-0498.

Fiscal Analyst: James Sperlik, 317-232-9866.

DEFINITIONS

Contribution Rate - As to an employee, a factor, such as a percentage of compensation, used in determining the amounts of payments to be made by the employee under a contributory pension plan. As to the employer, a factor, calculated in an actuarial valuation, to be used in determining the employer's annual normal cost contribution under a pension plan. An employer's contribution rate may be either a percentage to be applied to the total compensation paid to covered employees for a particular year, or an amount in dollars to be applied to the total number of covered employees at a particular date.

Normal Cost - The normal cost is the current value of benefits likely to be paid on account of members' service being rendered in the current year.

Unfunded Actuarial Liability - The actuarial liability, sometimes called the unfunded liability, of a retirement system at any time is the excess of its actuarial liability at that time over the value of its cash and investments.